

Message Text

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AMEMBASSY LONDON
AMEMBASSY TEHRAN
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LIMDIS

E.O. 11652: GDS
TAGS: ENRG, KU
SUBJECT: GULF/BP MAKE PROGRESS IN KUWAIT OIL NEGOTIATIONS

REF: A. KUWAIT 1337 B. KUWAIT 1395

SUMMARY: FOLLOWING MARCH 29 MEETING WITH CROWN PRINCE AND MARCH 31 MEETING WITH OIL MINISTER KAZEMI, GULF OIL REPS MORE CONFIDENT THAT AMICABLE SETTLEMENT CAN BE REACHED WITH GOK ON NATIONALIZATION ITS REMAINING INTEREST IN KUWAIT OIL COMPANY. PROSPECTIVE AGREEMENT SEEN BY COMPANY WOULD CALL FOR GULF TO LIFT UP TO 900,000 B/D OVER NEXT SEVERAL YEARS, WITH GOK DISCOUNT ON SOME PORTION QUANTITIES PURCHASED. ATTITUDE OF BP TOWARDS PROSPECTIVE AGREEMENT, WHICH WOULD PERMIT BOTH COMPANIES CONTINUE SERVICE OPERATIONS IN KUWAIT, STILL NOT KNOWN. GULF BOARD CHAIRMAN DORSY PLANS BRIEF DEPUTY SECRETARY INGERSOLL ON DEVELOPMENT AT EARLY TIME. END SUMMARY.

1. ON MARCH 31 PETE RALSTON, EXECUTIVE VICE PRESIDENT OF GULF, MET WITH AMBASSADOR AND DCM TO BRIEF THEM ON PROGRESS
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GULF/BP TALKS WITH GOK RE NATIONALIZATION THEIR REMAINING INTEREST

IN KUWAIT OIL COMPANY (KOC). RALSTON PLEASED RE DEVELOPMENTS CINE
STALEMATE REPORTED REFTEL (A). HE RECOUNTED FOLLOWING
SEQUENCE OF EVENTS.

2. WORKING LEVEL NEGOTIATIONS WITH ALI KALIFA HAVE REMAINED
TOUGH BUT CONSIDERABLE PROGRESS MADE IN REACHING AGREEMENT ON
FINANCIAL SETTLEMENT REQUIRED OF COMPANIES FOR 1973-74. COMPANIES
WILL OWE CONSIDERABLE SUMS WHICH WILL ONLY BARELY BE OFFSET BY
HOPED FOR COMPENSATION EXPECTED TO BE PAID (AT NET BOOK VALUE) BY
GOK FOR REMAINING FORTY PERCENT INTEREST IN KOC.

3. MEANWHILE, RALSTON AND JOHN SUTCLIFFE (OF BP) MET PRIVATELY WITH
FINANCE MINISTER ATEEQI TO SOLICIT HIS ADVICE CONCERNING BEST MANNER
OF MOVING AWAY FROM APPARENT IMPASSE WHICH HAD DEVELOPED IN
COMPENSATION AND RELATED TALKS. ATEEQI COUNSELED PATIENCE, INDICATING
GOK HAD NO DESIRE TO SEE GULF AND BP LEAVE KUWAIT AND THAT JUST
SETTLEMENT WOULD BE MADE BY GOK. ATEEQI SAID DEFINITIVE GOK
POSITION WAS CONTAINED IN WRITTEN GOK STATEMENT ON SUBJECT WHICH
HE (ATEEQI) HAD CAREFULLY REVIEWED WITH PRIME MINISTER. THE GOK
HAD NATIONALIZED THE COMPANIES' INTERESTS ON MARCH 5, BUT INTENDED
TO NEGOTIATE WITH COMPANIES IN GOOD FAITH.

4. ON MARCH 29 SUTCLIFFE AND RALSTON MET WITH CROWN PRINCE/
PRIME MINISTER WHO, IN BUSINESSLIKE SESSION, REITERATED ATEEQI'S
REMARKS STRESSING THAT EQUITABLE SETTLEMENT WOULD BE REACHED.
COMPANIES WERE OWED SOMETHING FOR THEIR PAST ASSOCIATION WITH
THE GOK. KUWAIT DID NOT INTEND TO SEE THEM REPLACED BY OTHERS,
PROVIDED A MUTUALLY BENEFICIAL FUTURE ASSOCIATION COULD BE NEGOTIATED
HE PROMISED PROVIDE GUIDANCE TO HIS OIL MINISTER.

5. IN ANTICIPATION OF MEETING WITH OIL MINISTER KAZEMI, TWO COMPANIES
DRAFTED JOINT LETTER REFERRING TO CONVERSATION WITH PRIME MINISTER AND
OUTLINING POSSIBILITIES FOR EXPANDING SOME COMMERCIAL ADVANTAGE
TO COMPANIES AS PROMISED BY PRIME MINISTER. LETTER, TRANSMITTED TO
MINISTER THROUGH ALI KALIFA, PROPOSED SEVERAL POSSIBILITIES AND/OR
COMBINATIONS OF POSSIBILITIES INCLUDING, INTERA ALIA:

A) ADEQUATE COMPENSATION WOULD BE PAID FOR COMPANIES' FACILITIES.
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B) GOK WOULD SELL EACH COMPANY 500,000 B/D OF OIL THROUGH
DECEMBER, 1979 AT DISCOUNT FIVE PERCENT BELOW MOST FAVORABLE TERMS
NEGOTIATED WITH OTHER COMMERCIAL BUYERS, TAKING DUE ACCOUNT OF CREDIT
TERMS AND OTHER ADVANTAGEOUS FACTORS INCLUDED IN SUCH CONTRACTS.
(NOTE: THIS ONE MILLION BPD CAN BE LOOKED AT AS EQUIVALENT OF
"EQUITY" OIL COMPANIES OWNED UNDER PREVIOUS PARTICIPATION
AGREEMENT, I.E. 40 PERCENT OF ASSUMED TOTAL PRODUCTION OF
2 1/2 MILLION BPD. DEC 79 WAS EXPIRATION DATE OF PREVIOUS AGREEMENT).

C) GOK WOULD SELL LPG AND NAPHTA TO COMPANIES AT FAVORABLE RATES, WHICH WOULD PERMIT THEM CONTINUED BENEFITS IN MARKET THEY HAD WON FOR THESE PRODUCTS, PARTICULARLY IN JAPAN.

D) COMPANIES WOULD BE PERMITTED TO PROCESS CRDUE AT KOC REFINERY IN KUWAIT UNDER ADVANTAGEOUS TERMS.

6. IF ADEQUATE BENEFITS COULD BE AGREED, TWO COMPANIES STATED THEY WOULD BE WILLING TO LIFT ADDITIONAL KUWAITI CRDUE ON COMMERCIAL

TERMS. LETTER SAID GULF WOULD BUY UP TO 400,000 B/D OF SUCH CRUDE, BEGINNING WITH LIFTINGS OF 200,000 B/D APRIL 1 THROUGH REMAINDER 1975

GULF WOULD ALSO AGREE TO AID IN THE ESTABLISHMENT OF LOCAL PETRO-CHEMICAL AND RELATED FACILITIES. BP AGREED TO LIFT ADDITIONAL CRDUE, BUT AMOUNT UNSPECIFIED. (WE FOUND CLEAR WHETHER OR NOT BP STATED WILLINGNESS TO PARTICIPATE IN PETROCHEMICAL PROJECTS). BOTH COMPANIES AGREED THEY WOULD ENTER INTO SERVICE CONTRACTS WITH GOK ON TERMS COMPETITIVE WITH THOSE OFFERED BY OTHER COMPANIES. (TWO COMPANIES HAVE AGREED NO PROSPECT FOR OBTAINING SPECIAL ADVANTAGE THROUGH SERVICE CONTRACT ROUTE.)

7. LETTER DESCRIBED ABOVE FORMED BASIS FOR DISCUSSION WITH OIL MINISTER KAZEMI ON MARCH 31. AFTER SOME INITIAL BLUSTER ON KUWAITI SIDE, KAZEMI WENT OVER LETTER POINT BY POINT, AGREED ADEQUATE COMPENSATION SHOULD BE PAID COMPANIES, AND APPEARED ACCEPT PRINCIPLE OF DISCOUNT ON PART OF OIL SOLD TO COMPANIES. HE SAID HE WOULD REPLY TO LETTER IN WRITING AND THAT THE COMPANIES "WOULD LIKE WHAT HE HAD TO SAY". WHILE NO COMMITMENT MADE RE WHEN RESPONSE WOULD BE RECEIVED, COMPANIES EXPECT ANSWER WITHIN NEXT SEVERAL WEEKS SINCE KAZEMI APPEARS ANXIOUS TO REACH SETTLEMENT. HOWEVER, KAZEMI DID INDICATE THAT, IF AGREEMENT REACHED, HE SAW NO NEED TO MAKE TERMS PUBLIC UNTIL AFTER ARAMCO/SAG AGREEMENT ANNOUNCED.

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8. IN CONCLUDING MEETING, KAZEMI AGREED GULF AND BP SHOULD CONTINUE TO LIFT OIL FOR AT LEAST NEXT THIRTY DAYS AT PRICES PREVAILING DURING FIRST QUARTER, BUT THAT SUBSEQUENT ADJUSTMENTS WOULD BE MADE IN LIGHT OF AGREEMENT EVENTUALLY REACHED WITH COMPANIES.

9. RALSTON SAID GULF CHAIRMAN DOSRY PLANNED BRIEF DEPUTY SECRETARY INGERSOLL ON ABOVE WITHIN NEXT SEVERAL DAYS. HE ALSO EXPRESSED CONCERN THAT BP MIGHT FAIL TO ACCEPT SETTLEMENT WITH GOK BECAUSE OF ITS FEARS FOR PRECEDENTS WHICH WOULD BE ESTABLISHED AFFECTING ITS INTERESTS ELSEWHERE.

10. COMMENT: GULF REPS SEEM PLEASED WITH RECENT DEVELOPMENTS AND HOPEFUL AGREEMENT WILL BE REACHED WHICH WILL PROVIDE COMPANY WITH THE LONG-TERM PRICE AND OIL ACCESS STABILITY IT NEEDS. WHILE ANY DISCOUNT AGREED TO BY KUWAIT COULD CREATE PROBLEMS WITHIN OPEC (ALTHOUGH COLLUSION WITH SAG IS LIKELY), AGREEMENT BY COMPANIES TO LIFT QUANTITIES OF OIL DESCRIBED WOULD BE OF CONSIDERABLE BENEFIT TO KUWAIT. WITH ALMOST 1 MILLION B/D ALREADY SOLD TO OTHER BUYERS, KOC COULD MAINTAIN PRODUCTION IN NEIGHBORHOOD 2.5 MILLION B/D OVER NEXT SEVERAL YEARS. ATTITUDE OF CONFIDENTIAL

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BP MAY BE DIFFERENT MATTER. THAT COMPANY HAS BRIEFED LOCAL HMG AMBASSADOR SEPARATELY. WE WILL ATTEMPT OBTAIN FROM HIM WITHIN NEXT SEVERAL DAYS HIS ASSESSMENT BP ATTITUDE AND LIKELY DIRECTION FUTURE DEVELOPMENTS.

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